



City of Santa Fe, New Mexico

200 Lincoln Avenue, P.O. Box 909, Santa Fe, N.M. 87504-0909

December 1, 2003

To the Honorable Mayor, Members of the Governing Council, and Citizens of the City of Santa Fe:

State law requires the State Auditor to promulgate reasonable regulations necessary to carry out the duties of the office, which include regulations that require that all municipalities in the state of New Mexico to submit a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants for the previous fiscal year ending June 30. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Santa Fe for the fiscal year ended June 30, 2003.

This report consists of management's representations concerning the finances of the City of Santa Fe. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Santa Fe has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Santa Fe's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Santa Fe's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Santa Fe's financial statements have been audited by Neff + Ricci, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Santa Fe for the fiscal year ended June 30, 2003 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Santa Fe's financial statements for the fiscal year ended June 30, 2003, are fairly presented in conformity with

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GAAP. The independent auditors report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Santa Fe was part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available herein as a separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City’s MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Santa Fe was founded in 1609 and chartered as a town in 1891 under territorial law. It is located in the central northern part of the state and is the oldest capital in the United States. It currently has a population of approximately 63,500 people. The City in December 1997, by electoral vote, approved a Municipal Charter which became effective in March 1998. The City is empowered to levy a property tax on real properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing body.

The City of Santa Fe has operated under the mayor-council-city manager form of government since 1954. Policy-making and legislative authority are vested in the governing body consisting of the mayor and eight city councilors. The governing body serves as the principal policy maker of the City. The governing body is responsible for passing ordinances, management of City finances and property, adopting the budget and creation or abolishment of departments. The mayor appoints and may remove the city manager, the city attorney, the city clerk, and members of advisory commissions, subject to the approval of the governing body. The city manager is the chief administrative officer of the City and is responsible for carrying out the policies and ordinances approved by the governing body, overseeing the day-to-day operations of the City, for appointing the directors of the various departments, the preparation of the annual budget, and keeping the governing body informed of the financial condition and needs of the City. The governing body is elected on a non-partisan basis. City council members serve four-year staggered terms, with four city councilors elected every two years. The mayor

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is elected to serve a four-year term. Eight council members are elected by districts. The mayor is elected at-large.

The City provides a full range of services, including police and fire protection; public works; highways and streets; wastewater operations; refuse collection and transport; water services; transit; parking facilities operations; convention center services; recreational activities and cultural events; community welfare; and, municipal airport. The City is responsible for one component unit – Santa Fe Civic Housing Authority. The component unit is included in the reporting entity because of the significance of its operational or financial relationship with the City. The City is financially accountable for the component unit since the mayor, with approval of the city council, appoints a voting majority of the governing board and can impose will on the entity. The component unit is discretely presented in the City's financial statements with additional information in the notes to the financial statements.

The annual budget serves as the foundation for the City of Santa Fe's financial planning and control. All departments of the City are required to submit requests for appropriations to the city manager in March of each year. The city manager uses these requests as the starting point for developing a proposed budget for the upcoming fiscal year. The city manager then presents this proposed budget to the finance committee (composed of five city councilors) in April through a series of several public meetings. The city council reviews the finance committee's recommended budget for adoption of a final budget by June 1 for the fiscal year commencing July 1. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g. police). The city manager may approve transfers of appropriations within a department up to \$20,000. Transfers over \$20,000 and budget increases require city council approval. Budget-to-actual comparisons are provided in this report for each fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on pages 20 through 22 as part of the basic financial statements for the governmental funds. For funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the fund subsections of this report.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Santa Fe operates.

Local economy. The City of Santa Fe currently enjoys a stable economic environment and local indicators point to continued stability. The region has a stable government (state and local) base, as well as a broad established arts and tourism sector composed of hotels, retail shops, galleries, museums, and restaurants. Government remains the area's largest employer with more than 27,000 people or about one-third of the work force. Other major businesses and largest employers located in the City or in close proximity include a

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hospital and other medical services (1,850 employees between the hospital and the largest medical services provider), the Santa Fe Opera, and Ski Santa Fe.

The region (which includes the City of Santa Fe and the surrounding unincorporated area within the same county, as well as the Santa Fe-Los Alamos metropolitan area) has an employed labor force of approximately 80,200, which is anticipated to grow at a rate of between 1.7 – 2.4%. Unemployment remains lower than state and national levels at 3.1%. The City's central business district is expected to maintain its current near full occupancy with a variety of stores, specialty shops, galleries, and other tourism related businesses. Although the second quarter of 2003 reflected a 6% decrease in home sales from the same period last year, sales remain strong with an average median price of \$269,000.

Long-term financial planning.

The most significant issue the City is facing is extended drought conditions in the region, which has resulted in increasingly strict water usage restrictions. Requirements for new construction and development now include water saving retrofits in other facilities to offset new water uses. The City is pursuing additional water supply from supplemental wells, additional water rights, and a river diversion project. These and other related water projects will require complex negotiations with state and federal agencies, extensive environmental assessments, regional coordination, and substantial planning for funding of up to \$150 million, which will hopefully include substantial state and federal funding.

Planning is continuing for a new or significantly improved convention center and parking facility. The current facility is an old high school gymnasium which has considerable limitations in holding events and providing desired amenities and space. Although variations of this project have been under consideration for a number of years, a mayor-appointed community task force and various consultants have presented recommendations for such a facility. In January 2003, the legislature also authorized an additional 1% Lodgers' Tax increment (which would total 6%), that could be enacted for the purpose of financing a facility. Review and discussion are still underway in determining the size, the operation costs and rates, financing and other related factors.

Cash management policies and practices.

Cash temporarily idle during the year was invested in demand deposits, certificates of deposit, obligations of the U.S. Treasury, repurchase agreements, money market savings accounts, and the New Mexico State Treasurer Local Government Investment Pool (LGIP). The length of the investment maturities range from 6 months to 5 years, with an average maturity of less than 6 months. The average yield on investments was 4%.

Risk management. The risk management programs include workers' compensation, comprehensive loss coverages, medical and other employee coverages and safety programs. As part of this comprehensive plan, resources are accumulated in internal

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service funds from premiums assessed to all departments and funds to cover the costs of potential losses. In addition, with the third party administrators, certain controls are used including safety checks, employee prevention and reporting training, reviews to recognize liability exposure, health and wellness information, and other cost controls.

Pension and other post employment benefits. The City of Santa Fe participates in the State of New Mexico Public Employees Retirement plan. Substantially all of the City's full-time employees participate in the retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan. The City fully funds the required payments as determined by PERA through City and member contributions. The City also provides a Retiree Health Care Program through City and member contributions to the fund. At the end of the fiscal year, there were 252 retired employees receiving these benefits. GAAP do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information of the City's pension arrangements and postemployment benefits can be found in Notes V. E. and F. on page 59 and 60.

Awards and acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Santa Fe for its Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 1988-95, 1997-99, and 2001-02. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR will meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated June 30, 2002 (as well as the previous years since FY 86/87). In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and the governing body

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for their unfailing support for maintaining the highest standards of professionalism in the
management of the City's finances.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jim Romero", with a long, sweeping horizontal stroke extending to the right.

Jim Romero
City Manager

A handwritten signature in black ink, appearing to read "Kathryn L. Raveling", with a large, stylized loop at the end.

Kathryn L. Raveling
Finance Director